

# CARBON MARKET BUSINESS BRIEF

## GERMANY

### GERMAN ETS (nEHS) AT A GLANCE

Years in operation	<p>Established on 1 January 2021</p> <p>2021-25: fixed-price period 2026: certificates will be auctioned within a price corridor From 2027: Open market trading, unless otherwise decided in 2025</p>
Overall cap & trajectory	<p>There is no specific nEHS cap published.</p> <p>According to ICAP calculations, the cap amounts to 301 million tonnes of CO<sub>2</sub> in 2021, decreasing to 233 MtCO<sub>2</sub> in 2030.</p> <p>The cap calculation takes into account all fuel-related emissions in sectors not covered by the EU ETS.</p>
Target(s)	<p>German non-ETS sectors target: -38% by 2030 compared to 2005.</p> <p>This target will be adjusted to match the EU's new target of a 55% reduction by 2030.</p>
Emissions Reduced to date	N/A
Sectors covered	<p>Transport and buildings.</p> <p>Fuel-related emissions from heating and transport sectors, e.g. gasoline, diesel, heating oil, natural gas, liquefied gas and biomass that does not meet the sustainability criteria. Coal included from 2023 onwards.</p>
GHGs covered	CO <sub>2</sub> only
Covered entities	Fuel distributors (wholesalers, manufacturers of fuels with wholesale distribution who place fuels on the market, and companies that import fuels into Germany and are covered by the national energy tax).
Allocation method	Fixed-price sale (until 2025); no free allocation.
Trading rules	<p>During 2021-25 allowances are auctioned at a fixed price: 2021: €25 2022: €30 2023: €35 2024: €45 2025: €55.</p> <p>In 2026, the price will be maintained within a corridor of €55-65. From 2027 onwards the market shifts to a free-floating price determined by open trading.</p> <p>Permits covering the previous year's emissions must be surrendered by 30 September each year. However, covered entities are allowed to purchase nEHS certificates from the previous year's allocation and at the previous year's price until the compliance deadline. This so-called post-purchase rule is limited to an amount corresponding to 10% of the inventory of nEHS certificates held in the company's own compliance account at the end of the previous year. Any nEHS certificates required beyond that limit can only be purchased on EEX at the current year's price.</p>

Use of offsets and linking	Offset credits are not eligible for compliance.
Other features	<p>Allowances are allocated for the current calendar year and are only valid for the current and previous calendar year; no banking is allowed.</p> <p>During the fixed-price phase, the national authority will hand out an unlimited amount of non-bankable certificates.</p> <p>As there are overlaps with the EU ETS, affected installations can be either exempted from the fuel supplier's obligation or receive an ex-post compensation.</p>
Penalties for non-compliance	Between 2021 and 2025, the penalty is twice the allowance price of the year in question. From 2026, the penalty will be set at €100/t.
Use of revenues	Auction revenues are allocated to the Energy and Climate Fund (EKF). The Fund supports investments in renewable energies or energy efficiency as well as international climate finance.

## MAJOR DEVELOPMENTS

The establishment of the German national ETS complemented the EU ETS by setting up a parallel, national market governed by its own trading rules and governing sectors previously covered under the EU's Effort Sharing Regulation. With the European Commission's 2021 proposal to create a new ETS for road transport and buildings, the developments in Germany's nEHS are being closely watched as they may serve as a blueprint for the EU's so-called 'ETS 2'.

On 28 July 2021, the Carbon Leakage Regulation for nEHS came into force following its adoption by the German parliament. The regulation introduced a compensation mechanism to minimise the risk of carbon leakage risk and had retroactive effect from 1 January 2021.

In April 2022, the German government reached an agreement on a regulation to ensure a more socially fair distribution of the CO2 price costs between landlords and tenants for both residential and non-residential buildings.

## MARKET COMMENTARY

The German system currently resembles a carbon tax more than a carbon market. From 2026 onwards, the system will operate within a price corridor, and from 2027 it will transition to a freely traded market.

Three months after the German ETS began, in March 2021, EEX was awarded a contract for the sale of nEHS allowances by the German Federal Environment Agency. The sales during the fixed price phase are held on a separate EEX platform outside the regulated market activities of EEX.

In October 2021, the first primary market sale of allowances took place. Sales are held twice a week throughout the year. In 2021 108 participants took part in the sales on behalf of 958 companies. In 2021 a total volume of 287,353,320 nEHS certificates were sold, generating revenue of €7.18 billion.

## USEFUL LINKS

[DEHSt: Understanding national emissions trading](#)

[DEHSt: Questions about national emissions trading](#)

[ICAP: German National Emissions Trading System](#)

[EEX: Frequently Asked Questions on nEHS \(nEHS FAQ\)](#)

[BMWK: Fairness bei den CO2-Kosten: BMWK, BMWSB und BMJ einigen sich auf gerechte Verteilung \(in German\)](#)

[ICAP: Germany adopts carbon leakage rules for national ETS](#)

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